

NEWS RELEASE



OFFICE OF THE UNITED STATES ATTORNEY SOUTHERN DISTRICT OF CALIFORNIA

San Diego, California

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For Immediate Release

OWNER OF TACO BELL FRANCHISES PLEADS GUILTY TO FRAUD AND TAX CHARGES

NEWS RELEASE SUMMARY - October 19, 2005

United States Attorney Carol C. Lam announced that Karl James, who owned and operated over 50 Taco Bell restaurant franchises in Southern California, pled guilty today to a two-count Information charging him with bankruptcy fraud and tax evasion, in connection with his scheme to fraudulently divert millions of dollars of business assets to his personal use and benefit. James entered his guilty plea in San Diego before United States Magistrate Judge William McCurine, Jr., subject to final acceptance of the plea by United States District Court Judge Roger T. Benitez, at the time of sentencing.

As described in the Information, Karl James was the President and Chief Executive Officer of Golden West Tacos, Inc. (GWT) during the period of the offense conduct. GWT was a California corporation that at that time owned and operated 56 Taco Bell restaurant franchises in Arizona and Southern California, including San Diego and Imperial Counties.

According to the plea agreement, between May 2, 1998, and continuing through June 5, 2001, James fraudulently diverted for his own personal use more than \$3 million of GWT income and assets, including beverage and food supplier rebate checks, and expensive residences that were purchased with GWT funds. James concealed the scheme by opening approximately 19 bank accounts, including “off book” GWT accounts and nominee accounts in the names of his father, Jack James (a retired attorney), and a California limited liability company that Karl James controlled in the name of Sea Horse Enterprises, LLC. James fraudulently diverted to and concealed in these accounts GWT rebate checks and the proceeds of the sale of a residence located in Encinitas, California. James also fraudulently transferred to his father and Sea Horse Enterprises residences located in Rancho Sante Fe and Palm Springs, California, which were purchased with GWT funds. James fraudulently concealed the transfers of GWT income and assets by making false entries in GWT’s books and records that falsely characterized the transfers as legitimate payments to his father. The payments were characterized as legal services which, in fact, were never performed and repayments of loans purportedly made to GWT which, in fact, never occurred. James prepared, backdated, and signed fraudulent promissory notes which were created for the fictitious loans his father allegedly made to GWT.

In pleading guilty, James admitted that on November 15, 2000 and March 8, 2001, he filed voluntary Chapter 11 bankruptcy petitions on behalf of GWT and himself personally. James further admitted that he concealed the existence and fraudulent diversion of GWT income and assets when he filed the petitions, and testified falsely under oath in the bankruptcy proceedings. Shortly after filing for Chapter 11 bankruptcy for GWT, James purchased a 50% interest in an airplane with GWT income, which he concealed by purchasing the airplane in the name of his father. James also fraudulently concealed approximately \$2,095,000 of GWT income and assets from the United States Bankruptcy Court and creditors. In addition, according to the plea agreement, James filed fraudulent individual income tax returns for the tax years 1998, 1999, and 2000, which failed to report over \$3 million in diverted GWT funds. James evaded over \$1.1 million in income taxes for these tax years.

As part of the plea agreement, James has agreed to pay, prior to sentencing, \$1,121,829.39 in restitution to the bankruptcy fraud victims, and \$1,169,957.74 to the government in payment of evaded federal income taxes.

A hearing is scheduled before United States District Court Judge Roger T. Benitez on January 9, 2006 at 9:00 a.m. for acceptance of plea and sentencing.

DEFENDANT

KARL JAMES

SUMMARY OF CHARGES AND MAXIMUM PENALTIES

COUNT 1	Bankruptcy Fraud in violation of Title 18, United States Code, Section 157(1) and (2) which is punishable by five years in prison and/or a \$250,000 fine.
COUNT 2	Tax Evasion in violation of Title 26, United States Code, Section 7201 which is punishable by five years in prison and/or a \$250,000 fine.

AGENCIES

Internal Revenue Service, Criminal Investigation
Federal Bureau of Investigation
Office of United States Trustee, Criminal Enforcement Unit